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DE RUEHCV #3375/01 3171528
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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 6975
INFO RUEHAC/AMEMBASSY ASUNCION 0719
RUEHBO/AMEMBASSY BOGOTA 7112
RUEHBR/AMEMBASSY BRASILIA 5816
RUEHBU/AMEMBASSY BUENOS AIRES 1511
RUEHLP/AMEMBASSY LA PAZ 2401
RUEHPE/AMEMBASSY LIMA 0654
RUEHMN/AMEMBASSY MONTEVIDEO 0879
RUEHQT/AMEMBASSY QUITO 2487
RUEHSG/AMEMBASSY SANTIAGO 3819
RUEHAO/AMCONSUL CURACAO 1060
RUEHGL/AMCONSUL GUAYAQUIL 0709
RUEATRS/DEPT OF TREASURY
RUCPDO/DEPT OF COMMERCE
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 02 CARACAS 003375

SIPDIS

SENSITIVE
SIPDIS

TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [VE](#)

SUBJECT: BRV TO ISSUE BONOS DEL SUR

REF: CARACAS 0659

¶1. (U) SUMMARY: The Ministry of Finance (MF) announced the imminent issuance of the long-awaited "Bonos del Sur" on November 7. The bonds, issued jointly by Venezuela and Argentina, will be worth USD 1 billion and are expected to start trading the week of November 13. The bonds will likely be met with enthusiastic demand from Venezuelan purchasers, seizing on this mechanism to avoid exchange controls that prevent many from converting their bolivars to dollars. END SUMMARY.

¶2. (SBU) The MF announced the long-awaited, though often-postponed, issuance of the "Bonos del Sur" on November 7. The bonds will be a combination of the BRV Secured Interest and Principal Certificate maturing on April 6, 2017 (USD 500 million), the Argentine Bonden 12 expiring on August 3, 2012 (USD 300 million), and the Argentine Bonden 15 expiring on October 3, 2015 (USD 200 million). All three instruments are dollar-denominated. The two Argentine bonds can be converted into either dollars or pesos, whereas the Venezuelan portion can only be converted into bolivars (though devaluation-safe as they are denominated in dollars). (Comment: This will probably affect demand for the Venezuelan bonds in the secondary market as they will pay interest in bolivars and can only be converted into bolivars, thus while they provide a decent hedge against inflation and devaluation, they do not provide the much desired outlet to dollars that most Venezuelans seek. End Comment.) The purchaser will get a combination "Bono del Sur" at the time of issuance, but they can then be split, with the Argentine portions sold on the international market for dollars. (Note: During a lunch with econoffs on November 8, a sector contact received a steady stream of calls about the bonds and noted that, while the bonds were not yet issued, people were already trading them on the local market. End Note.)

¶3. (SBU) Given the current demand for foreign exchange and a parallel rate in excess of 2900 bolivars/USD, it is unlikely

that this issuance will meet the private sector's demand for dollars. Unlike previous bond issuances, this announcement did not seem to affect the parallel rate, implying that the demand for dollars is such that USD 500 million in dollar-denominated assets hardly dented demand. Liquidity has increased 40.6 percent in 2006 (and 63.9 percent year on year) and shows no signs of abating. Delays in getting Commission for the Administration of Foreign Exchange (CADIVI) approvals and limitations placed on goods and services eligible for approvals mean that there are thriving parallel and black markets for dollars. One contact involved in the parallel exchange business recently estimated that the parallel market converts USD 20-30 million daily and that business recently had been picking up (even as the bolivar lost value). (Note: CADIVI has been approving approximately USD 100 million daily. End Note.)

14. (SBU) COMMENT: As with previous issuances, it is likely that this one will be over-subscribed. While historically the MF attempted to favor "small investors" over large institutions when assigning the rights to purchase these bonds, the process today is sorely lacking in transparency. The bonds are valued at the official exchange rate of 2150 bolivars/USD, but will probably be sold at an implied rate of between 2400 and 2600 to the dollar. This allows the BRV to make money on the arbitrage between official and implicit rates. Of course, the lucky purchasers can then sell these bonds at the parallel rate of 2900/USD, so it works out well for all parties involved. As with the Argentine bonds purchased and resold earlier this year (see reftel), it is likely that the "winners" of this process will be successful less for their merit than their political loyalty and

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financial largesse with certain BRV officials. We expect additional "Bonos del Sur" issuances to follow in 2007. END COMMENT.
BROWNFIELD